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FLORIDA GIFT FRUIT SHIPPERS ASSOCIATION
INITIAL BRIEF

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IDENTIFICATION OF INTERVENOR

This initial brief is submitted in behalf of Florida Gift Fruit Shippers Association, Orlando, Florida. (Referred to as the "Florida Shippers").

Florida Shippers is involved with the shipments of fresh citrus products from Florida to destinations throughout the United States and is a substantial user of fourth class parcel post.

Florida Shippers engage in a drop-shipping program, providing line haul transportation in truck load lots from Florida to various Postal Service facilities. Delivery at destination is handled by the Postal Service, primarily utilizing DBMC rates.

During the 1996-97 season, the Florida Shippers handled 1.283 million parcels, and the entire Florida gift fruit industry handled a total of some 3 million parcels. The average weight of the gift fruit parcel is approximately 25 pounds.

A more detailed description of the gift fruit industry and the transportation and delivery programs are set forth in greater detail in the testimony of Witness Ball (FGFSA-T-2)(TR 22/11354) and Witness Davis (FGFSA-T-3)(TR 22/11338) and will not be repeated in this brief.

VOLUME VARIABILITY OF HIGHWAY PURCHASED TRANSPORTATION

USPS Witness Bradley ,USPS-T-13, made an analysis of the variability of highway purchased transportation and determined that the variability of Intra-BMC purchased transportation was 97.43% and for Inter-BMC purchased transportation was 94.88%. TR 7/3816.

His purpose was to estimate the relationship between costs and cubic foot miles of capacity. His analysis was limited to transportation contracts .His analysis did not deal with mail volumes. TR 7/3577. He did not take into account mail volumes and made no determination if there were changes in mail volumes. TR 7/3805. He acknowledged that his CFM variability reflects the cubic capacity of the truck, rather than the actual volume of mail . TR 7/3638 He did not measure the response of cubic foot miles with respect to mail volume. TR 7/3807

His analysis did not study the changes in purchased capacity, TR 7/3808, or the extent of change in total cubic foot miles of capacity, TR 7/3813.

He acknowledged that there has been no basic change in the highway network since 1986, with the same number of contracts, and no major impact from operational changes. TR 7/3575. He does not know if there has been any change in the cubic foot capacity purchased over the past 10 years. TR 7/3818

In describing the factors taken into account in awarding contracts for transportation, Witness Bradley lists such things as trip routing and mileage, trip frequency, facilities served, and vehicle requirements, but does not mention mail volumes. TR 7/3545.

Witness Young, USPS-RT-3, who is Manager, National Mail Transportation Purchasing, listed the factors taken into consideration in purchasing transportation capacity as the requirement of downstream mail processing and delivery facilities, service commitments to customers, number of containers each downstream mail facility normally receives and the ability to handle the highway equipment. When asked how changes in mail volume impact the contracting process, his reply was that the postal transportation system is "not a system that will respond to a change in mail volume".

TR 35/18871.

Witness Nieto, USPS-T-2, stated that, because surface transportation capacity is jointly determined for all classes of mail using that transportation, determining the causality "is not only infeasible, but would be highly speculative".

TR 7/3348.

Dr. Merewitz, FGFS-A-T-1, explained why Bradley's analysis is inappropriate and unsubstantiated, without the use of the mail volume variable.

TR 22/11407-11415.

Without making any analysis of changes in mail volume carried in the purchased transportation, it is impossible to determine the variability of costs with changes in volume. There can be no established causal relationship between the mail volume and the costs. Hence, there can be no determination of the attributable portion of the costs, and these costs must be classified as institutional.

Even if the Commission should find some causal relationship of the cost of highway purchased transportation with changes in mail volumes, the very large extent of unused capacity requires that, for Intra-BMC and Inter-BMC transportation, the costs can be attributed only to the extent that the capacity was actually used for the transportation of mail. This unused capacity can only be characterized as being "excess capacity" which is not caused by any class of mail, but is truly institutional costs. The underutilization of the purchased capacity has continued at least since 1991, and is increasing. See the analysis of highway utilization factors for fiscal years 1991 through 1996 at TR 7/3259,3260 and 3429. It is readily apparent that this condition is not temporary and is not one that will be corrected by changes in the contracts for purchased transportation. It is an on-going condition that appears to be an inherent part of the postal transportation system, which is not caused by any class or classes of mail, and thus cannot be properly attributed to any class or subclass of mail..

TRACS

TRACS is a statistical sampling and data collection system to provide distribution keys for purchased transportation costs, including Intra-BMC highway and Inter-BMC highway.

The testimony to support and present this system was through Witness Nieto, USPS-T-2. Additional support was provided by Witness Pickett, USPS-RT-2. TR 35/18757.

Intervenor testimony which addressed the TRACS system included that of Witness Ball, FGFS-A-T-2, TR 22/11354 Witness Merewitz, FGFS-A-T-1, TR 22/11404 and Witness Haldi, ANM-T-1. TR 22/11770.

The criticisms and analyses of the system by the intervenor witnesses clearly demonstrate that TRACS has deficiencies that are presently insurmountable to the extent that the distribution keys developed cannot be used for the allocation of highway transportation costs.

At the core of the problems is the method of sampling Intra-BMC. The sampling is conducted 70% on the inbound move to the BMC and only 30% on the outbound move from the BMC. TR 7/3483.

With the increase in drop shipping, both in Standard A and Standard B - parcel post, it is obvious that there is an imbalance in volume of mail, in that the mail outbound from the BMC is much greater than the volume of mail from the postal facilities served by the BMC back (inbound) to the BMC This is clearly established by the utilization factors of inbound and outbound movements. See, TR 7/3259, 3260 and 3429.

The inequity of the 70-30 sampling ratio is recognized by the Postal Service, and TRACS applies "weighting factors" so that the sampling is essentially weighted equally. TR 7/3483 However, this does not correct the deficiency, and the outbound samples should receive a weighting to reflect the relative volume of mail.

Witness Nieto acknowledges that the mix of the mail is different outbound and inbound. TR 7/3486. The sampling design does not have any direct relationship to the relative volumes of mail moving from and to the BMC. TR 7/3268

The actual ratio of cubic feet of Standard A mail to parcel post is 4.25 to 1. TR 22/11428. However, the TRACS measure of this ratio is 1.08 to 1. It is clear that the TRACS result conflicts with reality.

Further demonstration of the erroneous conclusions produced from TRACS is the comparison, on the outbound move from the BMC, of the volume of DBMC mail, compared with that of parcel post. Under TRACS the pieces, weight and cubic feet of Mailcode P - parcel post, are all greater than that of Mailcode LL - DBMC. TR 22/11455 and USPS Lib Ref- H-288. Since the volume of DBMC mail is far greater than Intra-BMC, and is greater than Intra-BMC and Inter-BMC combined, the TRACS result is clearly in error.

TRACS does not measure the volume of mail which is unloaded. It merely takes samples from the mail unloaded. It would be appropriate to expand the sample to the universe - the actual unloaded mail, but that is not performed, and there is not sufficient data recorded to permit such expansion.

One of the more glaring objections to the TRACS system is the method of “expanding” the measured cubic feet of the sampled mail to account for the empty space in the container and the entire truck.

The utilization factors referred to above relate to the floor space of the truck. In addition to the unused floor space, there is additional unused vertical space of 32.3% on Intra-BMC and 43.75% on Inter-BMC. TR 7/3310. This merely compounds the problem.

The expansion process can produce some absurd results. Examples include: 3 pieces of parcel post, with a measured cube of 2.022 cubic feet are expanded to 1,620.0 cubic feet, and 2 pieces of standard A, with a measured cube of 0.0566 cubic feet, are expanded to 1,080.0 cubic feet. TR 7/3322. There are many other examples of this inane result. See, TR 7/3273-3277

TRACS even produces different cubic feet for two identical parcels, depending on whether the parcels are loaded side by side or stacked. TR 7/3514.

The Postal Service does not provide a satisfactory explanation or justification for the expansion process, and appears to be completely unsympathetic for the mailers who happen to send their mail on trips which tend to be emptier. TR 7/3313.

It is the position of USPS Witness Bradley that, in the postal transportation network, the cost of a contract is jointly determined by the cost of serving all of the legs on the route. The cubic foot capacity set by the contract reflects the joint requirement of moving mail over the entire network and the

contract cost should not be allocated to any individual leg of the contract. TR 7/3337 This is concurred by Witness Haldi, TR 2211819.

Dr. Merewitz expands on this joint cost issue and his conclusion is that it is improper to separate each leg of the trip for costing purposes.

However, TRACS does just that - it fragments the trip and determines the cost for each leg of the trip, charging the sampled mail unloaded with all of the cost of that leg.

The TRACS system has such deficiencies that the results cannot reasonably be used for the development of a distribution key for transportation costs.

The record in this case does not offer alternatives, but the total cubic feet of each class of mail is available and could be used in the establishment of distribution keys.

WEIGHT RELATED NON-TRANSPORTATION COSTS

The rate structure for Standard B - Parcel Post includes 2 cents per pound for weight related nontransportation handling cost. USPS-T-37, p. 4.

A similar per pound rate element is included in the rate structure for Bound Printed Matter. USPS-T- 38, P. 8. For BPM, the 2 cents applies for single piece non-local, 1.5 cents for single piece local, 1 cent for bulk non-local and 0.75 cents for bulk local.

Witness Adra has not identified any nontransportation handling costs that have a direct relationship to weight, and is not aware of a study pertaining to that issue. TR 8/4302 However, he states that this portion of the rate structure is to recover "costs that are positively correlated with the weight of the piece of mail". TR 8/4297

Similarly, Witness Mayes states that this rate element is to cover any nontransportation costs tat are positively correlated with the weight of the piece of mail. TR 8/4045. But, she is aware of no study to identify such costs, and the only costs she can possibly identify are cube-related. TR 8/4221 and 4225. She also concurs that, if the costs are cube related, it would be appropriate to use the curvilinear method which is used to allocate transportation costs.. T 8/4220.

In Parcel Post, the 2 cents per pound is applied across the board. This overstates the impact, if any, of weight on nontransportation handling costs for work shared mail, DBMC, DSCF, DDU, since, with worksharing there will be less handling by the Postal Service. There should be a different cost per pound for each work-sharing category, similar to that in place for Bound Printed Matter..

Witness Ball, FGFS-A-T-2, states that, in the absence of identification of such weight related handling cost, there can be no justification for the use of this factor in the rate structure. TR 22/11367.

Witness Ball points to some space related costs where the size, or cube, of the parcel may make a difference in the cost of handling, and urges the use of the curvilinear relationship of weight to cube for the purpose of allocating these unidentified costs. Failure to use this curvilinear relationship will result in discriminatory treatment of the heavier parcels. TR 22/11367.

Even though there are no identified weight related handling costs, it may be appropriate to recognize that size, or cube, may have an effect on costs, but the recovery must be on the curvilinear basis to produce an equitable result.

ASSIGNMENT OF INSTITUTIONAL COSTS

The “reasonable assignment” of institutional costs is probably the most important, and most difficult, of the work of the parties and the Commission.

Under Section 3622(b) the Commission has discretion in the application of the non-cost factors. The central themes focus on the concepts of “fair and equitable” and “value of service”.

In prior cases the Commission has considered the percentage mark-up of attributable costs as well as the unit contribution. Where there are substantial differences in attributable costs, the percentage cost coverage can misrepresent the respective institutional cost burden, and the per piece contribution is more important than the percentage. See, PRC OP R80-1, p. 455.

In this case, Witness Chown, and Witness Haldi have suggested some modifications in the assignment process. The proposal by Mr. Haldi that distance related air transportation cost not be burdened with the percentage assignment for institutional costs makes a lot of sense and should be carefully considered by the Commission.

Witness Ball, FGFS-A-T-2, also discusses the assignment of institutional cost. TR 22/11367.

Every piece of mail benefits from the Postal System and the rate for every piece of mail should include some amount in excess of its attributable cost as payment for the benefit of participating in the system.

Three facets of the postal operations - collection, mode of transportation and priority of delivery - all affect the value of service from the postal system.

Parcel post is on the low end of each of these operations. In the past, Parcel Post has been below the average percentage markup, principally due to the high attributable cost, but in recognition of the low value of service criteria. On the other hand, Parcel Post has been above average in the per unit contribution, usually below only the preferred classes of Priority and Express mail.

Because of the low value of service, as measured by the three postal operations noted above, Parcel Post should be near the average of per unit contribution.

Witness Ball proposed that an appropriate starting point for the determination of the contribution is a uniform amount for each piece of mail. From there, adjustments should be made to reflect the relative benefits from participating in the Postal system, the value of service and the ratemaking criteria of the Act. The costs of handling and processing each piece of mail are reflected in the amount of attributable cost for that piece. There is no relevant relationship between the amount of attributable cost and the appropriate contribution to institutional cost for any piece of mail. The contribution toward institutional cost should be determined according to the criteria of the Act, not be an arbitrary percentage of attributable cost.

Continued application of the percentage methodology will mean that, if the Postal Service becomes more efficient in handling and processing a type of mail, with resultant lower costs, then, due to the improved service, that type of mail will make a reduced contribution to institutional costs. In that event, the other mail,

which has not received the benefit of the improved efficiency, will have to make a larger contribution.

Such a consequence is inconsistent with reasonable assignment of the institutional costs.

For all mail, the amount of attributable transportation cost increases with distance. However, only for zone-rated mail is the difference separately attributed based on zone destination. There is no justification for a piece of mail destined to Zone 8 having a larger contribution to institutional cost than a piece of mail destined to Zone 4.

Similarly, there is no justification for different contributions based on the weight of the piece of mail. A 50 pound parcel should not make a higher contribution than a 5 pound parcel. Just because it may cost more to process and handle, does not mean that it receives a greater benefit from participating in the Postal System or that it should pay more toward institutional costs.

We urge the Commission to revise the methodology of assignment of institutional costs, with greater emphasis on the per piece contribution.

The higher cost pieces, such as Parcel Post, will be making a percentage payment for contingencies and this should be adequate to give continuing assurances that attributable costs will be covered.

CHANGES IN TRANSPORTATION ALLOCATION

Witness Hatfield, USPS-T-16, present a novel change in the method of allocating transportation costs for Parcel Post.

The results are shown in his Table III-3 on page 25 of his testimony.

It is not conceivable that transportation costs for Intra-BMC do not increase from Zone 1/2 to Zone 5.

Under his methodology, a mailer who participates in worksharing by taking his parcels to the destination BMC, thereby eliminating the need for the Postal Service to provide transportation from the originating SCF to the BMC, incurs greater costs than if the mailer used Intra-BMC transportation.

His method means that, if the Postal Service provides more transportation (for Intra-BMC) the cost is less than if the Postal Service only provided transportation from the destination BMC.

In his Exhibit USPS-16A he shows that intermediate cost for DBMC is greater than for either Intra-BMC or Inter-BMC. The latter two require two intermediate transportation movements, whereas the former, DBMC utilizes only one. Under his scenario, 3 parcels, with 1 parcel under each rate category, being transported at the same time, in the same truck, from the BMC to the destination SCF would have different costs. This is nothing short of ridiculous!

This new methodology will hasten the decline of the most successful venture the Postal Service has used - namely - the DBMC rate. It must be completely disregarded by the Commission.

PARCEL POST RATES

Witness Mayes, USPS-T-37, presents the rate proposal for the various Parcel Post rate categories.

Rate increases of 30% in most rate cells will adversely impact the Postal Service and the mailers, and must be moderated.

Witness Davis, FGFS-A-T-3, describes the "rate shock" that would result, and the adverse consequences to his company. TR 22/11338.

Such improvident increases are unjustified and unnecessary.

First, the ruinous allocations of transportation sponsored by witness Hatfield must be rejected, with the transportation cost being allocated on a realistic basis.

Second, the Alaska By-Pass adjustment, which has been mandated by this Commission since R90-1 must be continued. There is no evidence of any changes in circumstances or conditions to justify a change in the prior decision. The resulting reduction in costs of some 75 million dollars will eliminate the need for any increase.

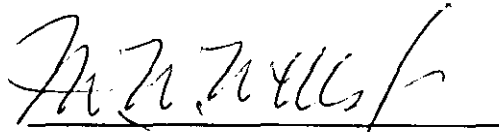
Third, correction of the attribution of highway purchased transportation will significantly reduce, if not eliminate the need for increase.

Fourth the assignment of institutional costs with a greater emphasis on the amount of the per unit contribution will moderate the need for any increase.

CERTIFICATE OF SERVICE

I hereby certify that I have this day served the foregoing document upon all parties of record in this proceeding on this date in accordance with Section 12 of the Rules of Practice and Procedure.

Dated : April 1, 1998



M. W. Wells, Jr., Attorney